



OFFICE OF
CHIEF COUNSEL

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

October 27, 2010

Number: **2010-0242**
Release Date: 12/30/2010

CONEX-142323-10

UILC: 162.05-21

The Honorable Donald A. Manzullo
U.S. House of Representatives
Washington, DC 20515

Attention:

Dear Mr. Manzullo:

I am responding to your letter dated September 20, 2010, on behalf of your constituent, . She asked about the deductibility of litigation costs that law firms pay when representing clients on a contingent gross fee basis.

The Ninth Circuit Court of Appeals in *Boccardo v. Commissioner*, 56 F.3d 1016 (9th Cir. 1995), held that a law firm was entitled to deduct the litigation costs it paid under a contingent gross fee contract. In 1997 FSA LEXIS 442, we announced that we would not follow *Boccardo* outside the Ninth Circuit. Over the years, several members of the Congress have asked us to clarify or change this litigating position. We continue to follow the 1997 FSA and, at this time, have no plans to change our position on this issue.

Members of the Congress and the public have asked whether the Department of the Treasury intends to publish formal guidance on the deductibility of litigation costs in contingent gross fee cases. The Treasury Department and the IRS have not yet determined whether additional guidance on this issue is appropriate.

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I hope this information is helpful. Please contact me or _____ at
if you need further assistance.

Sincerely,

Thomas D. Moffitt
Chief, Branch 2
(Income Tax and Accounting)